



**STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE**

Audit of Expenditures  
For the Quarter Ended March 31, 2004

Internal Audit Report No. 05-4

**AUDIT DIVISION**  
Department of  
Accounting and General Services  
February 25, 2005



## EXECUTIVE SUMMARY

The Department of Accounting and General Services, Audit Division conducted an audit of the Department of Budget and Finance's (the Department) expenditures for the quarter ended March 31, 2004 to determine whether expenditure payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting and internal control systems.

The mission of the Department is to administer the State budget, develop near and long-term financial plans and strategies for the State, and provide programs for the improvement of management and financial management of State agencies. It coordinates all budget services, supervises the implementation of the fiscal policies established by the Governor or mandated by the Legislature and has custody of all State funds.

With respect to the audit of the Department's expenditures, we noted the following:

- Five checks, totaling \$6,533.64, processed under Section 802-5, Hawaii Revised Statutes (HRS), by the Department on behalf of the Judiciary, were paid after the 30 days allowed under Section 103-10, HRS. No interest was calculated and paid to the vendors due to the late payments.
- Three vendor invoices, totaling \$2,082.90, processed under Section 802-5, HRS, by the Department on behalf of the Judiciary, had a "Goods/Services Received in Satisfactory Condition" stamp on the invoices, was signed by the authorized Judiciary employee, but was not dated. With no date indicated, compliance with Section 103-10, HRS could not be determined.

We recommend the Department establish controls to comply with Section 103-10, HRS.

In response, the Department concurs with the audit findings and will work with the Judiciary to comply with Section 103-10, HRS.

**STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>I. INTRODUCTORY SECTION</b>	
Letter of Transmittal	1
Summary	2
Introduction	2
Background	2
Scope, Objectives, and Methodology	2
Audit Procedures Performed	3
<b>II. NONCOMPLIANCE SECTION</b>	
Audit Findings with Recommendations:	
Audit Finding No. 1 – Interest Expense on Late Payment to Vendors	5
Audit Finding No. 2 – Satisfactory Receipt of Goods and Services	6
<b>III. DEPARTMENT’S RESPONSE</b>	

## INTRODUCTORY SECTION

LINDA LINGLE  
GOVERNOR



Russ K. Saito  
Comptroller

Katherine H. Thomason  
Deputy Comptroller

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING**  
**AND GENERAL SERVICES**

P.O. BOX 119  
HONOLULU, HAWAII 96810-0119

05.0066

February 25, 2005

The Honorable Georgina K. Kawamura  
Director of Finance  
Department of Budget and Finance  
State of Hawaii  
250 South Hotel Street  
Honolulu, Hawaii 96813

In accordance with the provisions of Section 26-6 of the Hawaii Revised Statutes, I present you with a financial audit report on the Department of Budget and Finance's expenditures for the quarter ended March 31, 2004.

The report is presented in two sections: introductory and noncompliance. The introductory section includes this transmittal letter, a summary of services, introduction, background, scope, objectives, methodology, and audit procedures performed. The noncompliance section includes a schedule of audit findings with recommendations.

Sincerely,

RUSS K. SAITO  
State Comptroller

## **SUMMARY**

The Department of Accounting and General Services, Audit Division conducted an audit of the Department of Budget and Finance's (the Department) expenditures for the quarter ended March 31, 2004 to determine whether expenditure payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting and internal control systems.

## **INTRODUCTION**

Authority to conduct this audit resides in Section 26-6, Hawaii Revised Statutes (HRS), which authorizes after-the-fact audits to determine the legality of expenditures and the accuracy of the accounts. In addition, Section 40-2, HRS, requires the State Comptroller to ensure that all accounting and internal control systems of departments in the executive branch of the State government adhere to prescribed policies and procedures and accounting principles generally accepted in the United States of America.

This audit is part of the Audit Division's 2004-2005 Audit Plan. The Audit Division maintains its organizational independence in accordance with Section 3.27, Independence Standards, *Government Auditing Standards* (2003 Revision).

Audit fieldwork took place November 3, 2004 through December 17, 2004 at the Department's fiscal office at 250 South Hotel Street, Honolulu, Hawaii. Steven J. Lee, Supervising Auditor, conducted the audit under the supervision of Wayne L. Chu, CPA, Audit Division Administrator.

## **BACKGROUND**

The Department was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary functions of the Department are to administer the State budget, develop near and long-term financial plans and strategies for the State, and provide programs for the improvement of management and financial management of State agencies. It coordinates all budget services, supervises the implementation of the fiscal policies established by the Governor or mandated by the Legislature and has custody of all State funds.

## **SCOPE, OBJECTIVES, AND METHODOLOGY**

The audit includes an examination of expenditures paid by the Department during the period January 1, 2004 through March 31, 2004. The audit objectives are to determine the legality of expenditures, accuracy of accounts, and the Department's compliance with established accounting and internal control systems.

This report includes detail testing of a sample of expenditure transactions and does not include the Department's other financial transactions, such as payroll, cash receipts and journal vouchers

Department of Budget and Finance  
Audit of Expenditures Report

---

(JVs). The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

A listing of the Department's expenditures for the quarter ended March 31, 2004, from the State's Financial Accounting and Management Information System, was used for sampling and verification to source documents during the audit. The Department processed for payment 3,967 expenditure transactions totaling \$3,892,743,571.22 during the quarter ended March 31, 2004.

We examined 50 randomly selected expenditure transactions, totaling \$19,696,545.29, as outlined below:

	<u>Total Population</u>	<u>Sample</u>	
		<u>Count</u>	<u>Amount</u>
Expenditures	\$ 91,843,079.61	43	\$15,228,865.67
Contract expenditures:			
Professional services	83,227.01	-	-
Others	123,900,124.31	7	4,467,679.62
Payroll expenditures and JVs	<u>3,676,917,140.29</u>	-	-
Totals	<u>\$3,892,743,571.22</u>	<u>50</u>	<u>\$19,696,545.29</u>

To gain an understanding of the Department's procedures in processing expenditures for payment and documenting the internal control system related to those procedures, we interviewed appropriate personnel, reviewed applicable available written policies and procedures, and documented our understanding of the established accounting system and internal controls in place during the audit period.

#### AUDIT PROCEDURES PERFORMED

We reviewed documents supporting expenditures such as vendor's invoices, purchase orders, summary warrant vouchers, requisition forms, procurement documents, contracts and inventory records to determine compliance with applicable laws, rules and regulations, policies and procedures, and compliance with established accounting and internal control systems.

Based on our detail testing of expenditure transactions, we found 43 expenditures and 7 contract expenditures to be legal expenditures of the Department, properly recorded and processed by the Department, and in compliance with established accounting and internal control systems, except for the 2 audit findings presented in the noncompliance section of the report.



## NONCOMPLIANCE SECTION

## **AUDIT FINDINGS WITH RECOMMENDATIONS**

The procedures enumerated below were performed to determine whether payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting and internal control systems.

### **AUDIT FINDING NO. 1 – INTEREST EXPENSE ON LATE PAYMENTS TO VENDORS**

Section 103-10, HRS, states that vendors shall be paid no later than 30 calendar days following receipt of the statement (vendor's invoice) or satisfactory delivery of the goods or performance of the services. Interest at the rate equal to the prime rate plus two percent (not to exceed twelve percent) shall be paid from the 30th day following receipt of the statement or satisfactory delivery of the goods or performance of the services, whichever is later and ending on the date of the check.

Under Section 802-5, HRS, the Department is responsible for paying the expenses of defending indigent persons who cannot be defended by the Public Defender. These expenses are incurred by the Judiciary of the State of Hawaii and approved by its courts. Upon court approval of an invoice for payment, the Judiciary prepares a purchase order (PO) and submits the PO and the invoice to the Department for payment.

As a result of our detail testing, we found that five checks totaling \$6,533.64 was dated between 37 and 71 days following the attestation statement date by the authorized employee certifying satisfactory delivery of goods or performance of the services. Interest was not calculated and paid to the vendors for the late payments.

#### **Procedures Performed**

We interviewed the fiscal officer of the court that initiated these payments and the Department's fiscal office staff. We examined the vendors' invoices and compared the check dates to the attestation statement date by the authorized employee certifying satisfactory delivery of goods or performance of the services.

#### **Recommendation**

The Department shall comply with Section 103-10, HRS, and make payments to vendors no later than 30 calendar days following the date of the attestation statement by the authorized employee certifying satisfactory delivery of the goods or performance of the services rendered. If payments cannot be made within the 30 calendar days, as described in Section 103-10, HRS, the interest shall be calculated and paid to the vendor.

## **AUDIT FINDING NO. 2 – SATISFACTORY RECEIPT OF GOODS AND SERVICES**

Section 40-2, HRS, establishes the accounting system used by State departments. The State's Accounting Manual describes in detail the accounting system. The State's accounting system uses purchase order forms to document authorization to purchase specified merchandise or the rendering of certain services. The State's accounting system uses a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services rendered. The control is the authorized state employee's certification.

The Judiciary has a similar process and uses a "Goods/Services Received in Satisfactory Condition" stamp.

Section 103-10, HRS, states that vendors shall be paid no later than 30 calendar days following receipt of the statement (vendor's invoice) or satisfactory delivery of the goods or performance of the services. The certification of satisfactory delivery of the goods or performance of the services cannot be determined if the authorized state employee does not sign and date on the appropriate lines of the stamp.

As a result of our detailed testing, we found that the Judiciary submitted three vendor invoices, totaling \$2,082.90, to the Department for payment, with a "Goods/Services Received in Satisfactory Condition" stamp on the invoice, signed by the authorized Judiciary employee, but not dated. With no date indicated, we are not able to determine if the payments were made in compliance with Section 103-10, HRS.

### **Procedures Performed**

We interviewed the fiscal officer of the court that initiated these payments and the Department's fiscal office staff. We examined the vendors' invoices for the "Goods/Services Received in Satisfactory Condition" stamp, signatures, and dates.

### **Recommendation**

The Department shall comply with Sections 40-2 and 103-10, HRS, and the State's Accounting Manual. The Department shall ensure that the vendor invoices submitted by the Judiciary for payment shall be stamped with a "Goods/Services Received in Satisfactory Condition" stamp, signed by the authorized Judiciary employee, and dated before submitting to the Department of Accounting and General Services for payment.

## DEPARTMENT'S RESPONSE

LINDA LINGLE  
GOVERNOR



GEORGINA K. KAWAMURA  
DIRECTOR

STANLEY SHIRAKI  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER  
PUBLIC UTILITIES COMMISSION

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION

February 17, 2005

TO: The Honorable Russ K. Saito, Comptroller  
Department of Accounting and General Services

FROM: Georgina K. Kawamura  
Director of Finance

A handwritten signature in cursive script, reading "Georgina K. Kawamura".

SUBJECT: Internal Audit Report No. 05-04 (Revised)

Attached are updated comments to the revised Internal Audit Report No. 05-04 for the Department of Budget and Finance. Attachments referenced in the "Responses to Findings" were previously transmitted on February 3, 2005.

Should there be any questions, please call Ms. Wanda Kimura, Program and Budget Analysis Manager, at 586-1596.

Attachments

## RESPONSES TO FINDINGS

**Finding No. 1:** "We found that five checks totaling \$6,533.64 were dated between 37 and 71 days following the attestation statement date by the authorized employee certifying satisfactory delivery of goods or performance of the services. Interest was not calculated and paid to the vendors for the late payments."

**Recommendation:** The Department shall comply with Section 103-10, HRS, and make payments to vendors no later than 30 calendar days following the date of the attestation statement by the authorized employee certifying satisfactory delivery of the goods or performance of the services rendered. If payments cannot be made within the 30 calendar days, as described in Section 103-10, HRS, the interest shall be calculated and paid to the vendor.

**CONCURRENCE:** Concur with concerns.

**COMMENTS:**

The Judiciary will be notified of this finding for appropriate action. Interest payments will be processed when the payment to the vendor exceeds thirty days from the date the courts make approval for payment.

As noted in the Late Vendor Payment Study conducted for fiscal year 2003 by Pam Smith, a consultant to the Department of Accounting and General Services. " Budget and Finance pays for private attorneys when there is a conflict of interest in the public defender's office. These payments are all processed through Judiciary then presented to the Budget and Finance fiscal office for payment. **Budget and Finance has no control over the speed with which Judiciary processes the payment.**" Once received from the Judiciary, the Department of Budget and Finance (DB&F) has processed payments within the mandated timeframes. A review of the four payments for court appointed counsel showed that payments were processed between seven and twenty-three days after Budget and Finance (B&F) received the documents from Judiciary.

The B&F has notified the Judiciary of payment processing requirements and as recent as January 15, 2004, the Judiciary was reminded of the need for prompt payments to vendors. A response was received February 3, 2004 from the Judiciary advising that they would continue to adhere to the established document submission deadlines set forth by the Department of Accounting and General Services and the Department of Budget and Finance.

Payments processed by the DB&F for court appointed counsel constitutes a significant portion of payments processed by the Administrative and Research Office. Use of the court's approval date to determine the aging start date will inevitably result in a significant increase in the number of late payments for which DB&F has no control. The DB&F therefore requests that the Department of Accounting and General Services (DAGS) separately track and report late payments attributed to the Judiciary.

**Finding No. 2:** "We found that the Judiciary submitted three vendor invoices, totaling \$2,082.90, to the Department for payment, with a "Goods/Services Received in Satisfactory Condition" stamp on the invoice, signed by the authorized Judiciary employee, but not dated. With no date indicated, we are not able to determine if the payments were made in compliance with Section 103-10, HRS."

Recommendation: The Department shall comply with Sections 40-2 and 103-10, HRS, and the State's Accounting Manual. The Department shall ensure that the vendor invoices submitted by the Judiciary for payment shall be stamped with a "Goods/Services Received in Satisfactory Condition" stamp, signed by the authorized Judiciary employee, and dated before submitting to the Department of Accounting and General Services for payment.

CONCURRENCE: Concur.

COMMENTS: The Judiciary will be notified of this finding for appropriate action.